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California scores nearly half of North American green tech capital

By David R. Baker

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The flood of money flowing into green tech keeps rising.

North American companies that create eco-friendly products raked in \$3.95 billion in venture capital during 2007, up 38 percent from the year before, according to data an industry group will release today.

California, as usual, scored the largest haul. Venture capitalists poured \$1.79 billion into the Golden State's green companies last year, most of them in the Bay Area. That's 45 percent of all green investments in North America, according to data from the Cleantech Group, an organization that tracks and encourages investment in the field.

In 2006, California's green tech companies brought in \$1.18 billion, or 41 percent of North America's green investments.

"Silicon Valley has moved much more rapidly than any other place on the planet," said John Balbach, managing partner of the Cleantech Group. "It's the speed at which the innovation economy in California is able to shift from one field to another."

Still, the boom wasn't confined to this state, or even this side of the Atlantic.

European green tech investments hit \$1.23 billion in 2007, a 34 percent increase from the year before. Since 2001, the amount of venture capital pumped into this young industry has grown an astonishing 625 percent in Europe and North America.

The Cleantech Group does not yet have complete 2007 data for China and India, both of which have green startups of their own.

Green tech's fortunes have been buoyed by a combination of high energy prices and fears of global warming. Oil prices recently touched \$100 per barrel for the first time, lending new urgency to the hunt for alternative fuels. Government policies to reduce greenhouse gas emissions, both here and abroad, have guaranteed a marketplace for wind power, solar power and other renewable forms of energy. And consumers are demanding more green products, such as energy-efficient appliances and light bulbs.

At the same time, so much cash has gone into green startups that some investors have begun to wonder if a bubble is forming.

A survey last month of 170 venture capitalists in the United States found that 80 percent expected green tech investments to rise in 2008. But 61 percent also said that the green tech sector will be overvalued this year, according to the National Venture Capital Association, which conducted the survey.

Balbach said his organization doesn't foresee an investment downturn anytime soon. The global competition for oil supplies and other important resources, as well as the sheer size of the worldwide energy market, should provide green companies with room to grow, he said.

"In any market cycle, there are going to be corrections, but we don't see bubbles," he said. "In our view, we're just at the beginning of the cycle."

In 2007, companies that specialize in energy generation - devising biofuels or new solar panels, for example - pulled in more venture capital than any other green tech companies in North America and Europe. The Cleantech Group tracked 172 funding deals within energy generation, for a total value of \$2.75 billion.

Energy storage companies, which work on advanced batteries or fuel cells, accounted for 20 deals, worth a total of \$471 million. Companies that specialize in transportation technology also accounted for 20 deals, for a total of \$445 million.

Green investment

Investments in North America and Europe since 2001

2007\$5.18 billion

2006\$3.6 billion

2005\$2.5 billion

2004\$1.8 billion

2003\$1.7 billion

2002\$899 million

2001\$714 million